

Message Text

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14

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E.O. 11652: N/A

TAGS: ETRD, FR

SUBJECT: FRANCE INCREASES TAX ON HIGH HORSEPOWER

--- AUTOMOBILES

REF: (A) PARIS 4336; (B) 6817

1. BACKGROUND - THE DISPARITY IN TAX INCIDENCE BETWEEN
PASSENGER CARS SUBJECT TO THE DIFFERENTIAL TAX (VIGNETTE)

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AND THOSE SUBJECT TO THE MUCH HIGHER SPECIAL TAX APPLIED

TO MOST U.S.-MANUFACTURED CARS HAS BEEN CONTESTED BY THE UNITED STATES SINCE THE PASSAGE IN 1956 OF FRENCH LEGISLATION ESTABLISHING THESE TAXES. THE UNITED STATES HAS RAISED THIS MATTER ON NUMEROUS OCCASIONS WITH FRANCE -- BOTH BILATERALLY AND IN THE GATT. DISCUSSIONS OF THE FRENCH AND OTHER MEMBER COUNTRIES' AUTOMOBILE ROAD TAXES WERE ALSO HELD IN THE OECD IN 1964.

2. IN THE KENNEDY ROUND THE UNITED STATES AGREED TO SEEK ELIMINATION OF THE ASP SYSTEM OF CUSTOMS VALUATION FOR CERTAIN CHEMICALS AND OTHER PRODUCTS. A CONDITION OF THAT AGREEMENT WAS THAT AS SOON AS THE ASP HAD BEEN ELIMINATED, FRANCE, BELGIUM AND ITALY WOULD PROMULGATE THE NECESSARY LEGISLATION TO MODIFY EITHER THE PROGRESSIVITY OF THE

AUTOMOBILE TAXES OR THE BASIS OF THEIR ASSESSMENT. WHEN THE U.S. CONGRESS DID NOT ELIMINATE ASP, THE AGREEMENT, INCLUDING ITS PROVISION FOR ADJUSTMENT OF AUTOMOBILE TAXES, WAS VOIDED. SINCE THEN, THE FRENCH TAX HAS BEEN NOTIFIED TO THE GATT AS A NON-TARIFF MEASURE IN CONJUNCTION WITH THE MTN. (THE LETTER FROM GATT DG LONG TO MR. NOBLES PROBABLY REFERS TO THIS NOTIFICATION -- REFTEL A. PARA 3). THE RECENT INCREASE IN THE TAX WILL ALSO BE NOTIFIED.

3. U.S. POSITION - OVER THE YEARS THE UNITED STATES HAS HELD THAT THE DISPROPORTIONATELY HEAVIER TAX WHICH FRANCE LEVIES ON AUTOMOBILES OVER 16CV IS A DISCRIMINATORY MEASURE SINCE SUCH AUTOMOBILES ARE NOT PRODUCED IN FRANCE; THAT THE MEASURE IS NOT CONSISTENT WITH ARTICLE III OF THE GATT; AND THAT IT IMPEDES U.S. EXPORTS OF AUTOMOBILES AND PREVENTS THE UNITED STATES FROM REALIZING FULL BENEFITS FROM TARIFF CONCESSIONS GRANTED TO THE UNITED STATES BY FRANCE AND THE EC. THIS POSITION REMAINS UNCHANGED AND EQUALLY APPLIES TO THE RECENT INCREASE OF THE SPECIAL TAX. FYI THE GOF HAS CONSISTENTLY DENIED THAT THE TAX IS DISCRIMINATORY, IN CONFLICT WITH THE GATT, OR AFFECTS THE SALES OF U.S. CARS IN FRANCE. END FYI.

4. THE FRENCH JUSTIFICATION FOR THE INCREASE IN THE LIMITED OFFICIAL USE

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SPECIAL TAX (REFTEL B. PARA 4) IS UNCONVINCING. THE TAX IS A MARGINAL SOURCE OF REVENUE AND ITS INCREASE IS NOT GOING MATERIALLY TO ALTER THIS FACT. IN 1973, THE VIGNETTE TAXES WERE LEVIED ON A TOTAL OF 15,333,400 VEHICLES OF WHICH ONLY 11,700 AUTOMOBILES, I.E., LESS THAN ONE-TENTH OF ONE PERCENT WERE SUBJECT TO THE SPECIAL TAX (ANNUAIRE STATISTIQUE 1975-PAGE 371). IT APPEARS THEREFORE THAT THE INCREASE OF THE TAX IS NOT AN EFFECTIVE WAY TO RAISE REVE-

NUE OR "SOAK THE RICH." THE NEW MEASURE, HOWEVER, WILL
INTENSIFY AN EXISTING OBSTACLE TO TRADE.

ACTION REQUESTED: EMBASSY PARIS REQUESTED TO DISCUSS THIS
MATTER WITH THE APPROPRIATE FRENCH OFFICIALS DRAWING
WITHIN ITS DISCRETION ON THE ABOVE, AND REPORT REACTIONS.
USEC SHOULD ASK OFFICIALS WHETHER EC COUNTRIES AFFECTED
BY THE FRENCH MEASURE (I.E., UK, GERMANY) HAVE COMPLAINED
TO THE COMMISSION AND IF THE COMMISSION PLANS TO TAKE
ANY ACTION. KISSINGER

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